

DIRECT TESTIMONY

OF

IRIS N. GRIFFIN

ON BEHALF OF

SOUTH CAROLINA ELECTRIC & GAS COMPANY

DOCKET NO. 2017-305-E

DOCKET NO. 2017-207-E

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION.

A. I am Iris N. Griffin, Senior Vice President, Chief Financial Officer (“CFO”), and Treasurer of SCANA Corporation (“SCANA”) and South Carolina Electric & Gas Company (“SCE&G” or collectively the “Company”). My business address is 220 Operation Way, Cayce, South Carolina.

Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes, I have submitted pre-filed direct testimony in Docket No. 2017-370-E, which has been consolidated for hearing purposes with the dockets in which this testimony is filed. Because this earlier testimony addresses many of the issues raised in these dockets, that pre-filed testimony is

1 attached as *Exhibit* __ (*ING-1A*) to this testimony and incorporated by
2 reference into my pre-filed direct testimony in this docket.

3 **Q. WERE THERE EXHIBITS ATTACHED TO YOUR PREFILED**
4 **DIRECT TESTIMONY IN DOCKET NUMBER 2017-370-E?**

5 A. Yes. There were four exhibits to my pre-filed direct testimony in
6 Docket No. 2017-370-E. They are attached to my pre-filed direct testimony
7 in this Docket *as Exhibits* __ (*ING-2A*), __ (*ING-3A*), __ (*ING-4A*), and
8 __ (*ING-5A*).

9 **Q. WHAT IS THE PURPOSE OF THE TESTIMONY YOU PREFILED**
10 **IN DOCKET NUMBER 2017-370-E?**

11 A. The purpose of the testimony prefiled in Docket No. 2017-370-E is
12 to provide an overview of the Company's finances and its financial
13 position. In that testimony, I explain how the Company's finances are
14 structured and the importance of maintaining the Company's access to
15 capital markets so that it can continue to do its jobs of providing reliable
16 and efficient utility service to customers and supporting economic
17 development in the State of South Carolina. That testimony explains why,
18 as a standalone business, it would be unduly risky or financially impractical
19 for the Company to offer benefits to customers equivalent to those offered
20 by Dominion Energy, Inc. ("Dominion Energy").

1 Further, that testimony explains the financial results that would be
2 expected under each of the three regulatory plans set forth in the Joint
3 Petition for Docket No. 2017-370-E. It also shows the results that would be
4 expected if Act No. 258 were implemented on a permanent basis.

5 My testimony in Docket No. 2017-370-E is particularly relevant to
6 these dockets because the relief requested in Docket No. 2017-305-E –
7 which is a permanent 18% rate reduction – is roughly analogous, but more
8 damaging, than permanently implementing the rate reduction of
9 approximately 15% imposed under Act No. 258. Because the relief
10 requested by ORS in Docket No. 2017-305-E is more extreme, it would
11 result in greater revenue loss, greater impairments of assets and more
12 damage to SCE&G’s finances and financial stability than would result from
13 permanently implementing the rate reduction imposed under Act No. 258.
14 That fact should be taken into account in reviewing ORS’s request in light
15 of the information provided in *Exhibit __ (ING-1A)*.

16 In Docket No. 2017-207-E, Friends of the Earth and the Sierra Club
17 present a generic request for reparations due to the abandonment of the new
18 nuclear development project (“NND Project”). The relief requested in that
19 docket is less clearly defined than in the proceeding ORS filed. However,
20 my prefiled direct testimony in Docket No. 2017-370-E as found in *Exhibit*
21 *__ (ING-1A)* and the information provided on the associated exhibits,

1 *Exhibits* __ (ING-2A), __ (ING-3A), __ (ING-4A), and __ (ING-5A)
2 provide data that can be used to reasonably assess the expected impacts of
3 rate cuts and impairments of assets at several levels.

4 **Q. AS TO IMPAIRMENTS OF ASSETS SPECIFICALLY, HOW DOES**
5 **YOUR TESTIMONY IN DOCKET NO. 2017-370-E RELATE TO**
6 **THE RELIEF REQUESTED IN THE PRESENT DOCKETS,**
7 **DOCKET NOS. 2017-207-E AND 2017-305-E?**

8 A. Both the ORS and the Sierra Club/Friends of the Earth proposals
9 seek a permanent disallowance of a return of and a return on the NND
10 Project investment. As a result, both could involve a potentially large
11 impairment of SCE&G's capital by removing the return of and return on a
12 part of its investment in assets. In Docket No. 2017-370-E, I explain how
13 such an impairment could have negative consequences for SCE&G's
14 financial stability.

15 **Q. CAN YOU BRIEFLY EXPLAIN THE ACCOUNTING MECHANISM**
16 **AT WORK HERE?**

17 A. SCE&G is a regulated entity. As a regulated entity, unlike a private
18 business, SCE&G cannot recover the cost of an abandoned project through
19 higher returns on successful projects. Regulation limits returns on rate base
20 to only as much as is necessary to compensate investors for the investment
21 *in that amount of rate base*. If unsuccessful projects are excluded from any

1 return, they must be written off, because there is no revenue to support
2 recovery of the investment that they represent. For that reason, if SCE&G
3 is not allowed to recover the cost of an abandoned project through regulated
4 rates, the accounting rules require it to write off those costs.

5 ORS's witness, Dr. Mark Cooper, proposes that SCE&G should
6 have modeled the decision to continue or cancel the nuclear plant based on
7 the assumption that cancellation would entail the Company writing off
8 approximately \$5 billion in investment. But, for the reasons I state in
9 *Exhibit __ (ING-1A)*, a write off of that magnitude would not be consistent
10 with providing a fair return to investors and could make it extremely
11 challenging for the Company to access the capital needed to provide safe,
12 reliable and efficient electric utility service to its customers going forward.

13 **Q. WHAT IS THE PURPOSE OF THE ADDITIONAL TESTIMONY**
14 **YOU ARE PROVIDING IN THIS PROCEEDING?**

15 A. The purpose of the additional testimony I am providing in this
16 proceeding is to provide additional information regarding developments
17 since the filing of my Direct Testimony in Docket No. 2017-370-E. It
18 describes the impacts of the recent credit rating downgrades and the results
19 of recent bond refinancing efforts.

20

**DEVELOPMENTS SINCE FILING DIRECT TESTIMONY IN DOCKET
NUMBER 2017-370-E**

**Q. HAVE THERE BEEN ANY RELEVANT DEVELOPMENTS SINCE
YOU SUBMITTED YOUR PRIOR TESTIMONY IN DOCKET
NUMBER 2017-370-E?**

A. Yes. Most significantly, on July 2, 2018, the Commission issued Order No. 2018-459 in Docket No. 2018-217-E, which temporarily reduces rates to SCE&G's customers by approximately 15% starting from April 1, 2018. The South Carolina General Assembly directed the Commission to impose this rate reduction pursuant to 2018 South Carolina Laws Act 287 ("H.B. 4375"), which was passed on June 28, 2018. This rate reduction is temporary and will be lifted once the Commission issues an order in Docket No. 2017-370-E.

Following this Order, both Fitch and S&P Global Ratings downgraded SCE&G's and SCANA's credit ratings.

**Q. PLEASE FURTHER EXPLAIN THE RECENT CREDIT
DOWNGRADES BY FITCH AND S&P GLOBAL RATINGS
FOLLOWING THE ANNOUNCEMENT OF THIS TEMPORARY
RATE REDUCTION.**

A. On August 8, 2018, Fitch downgraded SCE&G's and SCANA's issuer credit ratings by one notch to 'BB+' and 'BB,' respectively.

1 Whereas SCANA's issuer rating was already below investment grade, this
2 action moved SCE&G's issuer rating below investment grade as well at
3 Fitch.

4 As support for its decision to downgrade the credit ratings of
5 SCANA and SCE&G, Fitch cited "sharp deterioration in the legislative and
6 regulatory environment in South Carolina since abandonment of the new
7 nuclear project in July 201[7]," including H.B. 4375's "legislatively
8 mandated 14.8% rate cut, changes to definitions and statutory components
9 of the state's utility regulation," which Fitch believes "are likely to result in
10 diminished regulatory support." Further, Fitch addressed the current
11 dockets and stated that "[i]f the PSC issues an order in December 2018 with
12 a permanent cut of a similar magnitude [to that of the H.B. 4375],
13 additional downgrades may be warranted." Further, the downgrade was
14 also based on the "continuation of [SCE&G's] adversarial regulatory
15 relationship." Fitch Public Statement of August 8, 2018, attached as
16 ***Exhibit __ (ING-6A)***.

17 On August 9, 2018, S&P Global Ratings ("S&P") likewise lowered
18 its issuer ratings by one notch to 'BBB-' for both SCE&G and SCANA.
19 This action placed the issuer rating for both companies at the last notch of
20 investment grade.

1 S&P noted that its downgrade “reflect[ed] [its] expectation of
2 reduced consolidated credit metrics over the next two years, even after
3 incorporating the company’s announced cut to its dividend payments.”
4 S&P further stated that it could lower ratings again if the temporary rate
5 reduction is made permanent in the present dockets. See S&P Public
6 Statement of August 9, 2018, attached as *Exhibit* __ (ING-7A).

7 **Q. PLEASE DISCUSS SCE&G’S CREDIT RATING FROM MOODY’S.**

8 A. As referenced in my testimony in Docket No. 2017-370-E, the
9 Moody’s issuer ratings for SCANA and SCE&G are Ba1 and Baa3,
10 respectively. This places SCANA below investment grade and SCE&G on
11 the last notch of investment grade. Moody’s has a negative outlook on the
12 ratings of the Company, which indicates that further downgrades are
13 possible. Moody’s stated that negative outlook “reflects Moody’s view that
14 the political and regulatory environment within which the companies much
15 operate is now considerably below average.” Moody’s Public Statement of
16 July 2, 2018, attached as *Exhibit* __ (ING-8A).

17 **Q. PLEASE EXPLAIN THE AFFECT THESE DOWNGRADES HAVE**
18 **HAD ON SCE&G’S BOND REFINANCING EFFORTS.**

19 A. SCE&G recently issued \$700 million in long term debt to refinance
20 an upcoming maturity of debt and to term out money that SCE&G had
21 invested in the money pool which was used by South Carolina Generating

Company. In order to place the bonds, SCE&G had to do so at a higher rate than its utility peers.

The interest rate on long term debt is composed of two factors, the U.S. Department of Treasury rate and the credit spread. The credit spread differs based on the risk of each issuer. In the table below, SCE&G's spread on its 10 year debt is compared to other utilities who placed 10 year bonds in the same general time period.

TABLE 1

Pricing Date	Issuer	Moody's Rating	S&P Rating	Coupon Type	Coupon Rate (%)	Maturity	Spread (bps)
08/15/2018	SCE&G	Baa1	BBB+	Fixed	4.250	08/15/2028	143
08/14/2018	Oklahoma Gas & Electric Co	A2	BBB+	Fixed	3.800	08/15/2028	93
08/07/2018	Commonwealth Edison Company	A1	A-	Fixed	3.700	08/15/2028	75
08/07/2018	Oncor Electric Delivery Co	A2	AA+	Fixed	3.700	11/15/2028	73
08/06/2018	Duke Energy Progress LLC	Aa3	A	Fixed	3.700	09/01/2028	77
08/06/2018	American Water Capital	A3	A	Fixed	3.750	09/01/2028	82

As shown in this table, other utilities' rates are far below SCE&G's rate. They paid on average a spread of approximately 80 basis points above the Treasury Rate. This was 63 basis points or approximately 78% less than the credit spread of SCE&G.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

1 A. Yes, it does.